

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

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September 6, 2002

CBO Confirms Republican Tax Cuts—Not September 11—Primarily Responsible for Deficits

Dear Democratic Colleague:

As reported in the attached article from today's New York Times, the Congressional Budget Office (CBO) has recently completed, at our request, the first independent analysis estimating the budgetary impact of September 11. CBO concludes that the estimated budgetary impact of September 11 is \$435 billion over 2002-2011. This is a considerable sum, to be sure. But at the same time, CBO's analysis confirms that the cost of September 11, plus associated interest costs, represents only about 11 percent of the more than \$5 trillion total deterioration of the surplus since last year. By contrast, using the Administration's own numbers, the President's tax cuts are responsible for 37 percent of the surplus deterioration, confirming Democratic assertions that the Republican tax cuts are the biggest single cause of the return to deficits.

CBO arrived at the figure of \$435 billion by first totaling the cost of all September 11-related legislation enacted to date. CBO then added its forecast of the additional future costs of responding to September 11, using the President's 2003 budget request for homeland security and the war on terrorism as a basis. Adding associated interest costs brings the total to \$554 billion.

The two attached charts are helpful in displaying these numbers. Chart One shows that the \$554 billion total cost of September 11—while substantial—represents only 11 percent of the \$5 trillion surplus deterioration that has occurred since last year. By contrast, tax cuts are responsible for 37 percent of the decline of the surplus. As Chart Two demonstrates, tax cuts are thus responsible for three times more of the erosion of the surplus than is September 11.

These numbers also help to address some statements made by the Administration which have blamed the reversal from surpluses to deficits primarily on a "trifecta:" the recession, the war on terrorism, and a national emergency. Chart One shows that the "trifecta" is responsible for only 18 percent of the fiscal deterioration— 7 percent for the economic piece of the pie chart and 11 percent for the September 11 piece. At 37 percent, tax cuts have had twice as big an impact as the economic piece and the September 11 piece combined.

Democrats remain fully committed to providing every penny necessary to protect the homeland and win the war on terrorism. CBO's analysis reminds us that since those costs are likely to be considerable, the country would have been better served if last year's budget had—as we proposed—included a smaller tax cut and thus allowed a bigger margin for unexpected contingencies. CBO's analysis also makes clear that these large Republican tax cuts—not September 11—are the most significant cause of the \$5 trillion deterioration in the surplus since last year.

I hope that you find the attached materials helpful. As always, please do not hesitate to call me or the Budget Committee's Democratic staff with any questions.

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member

TRACES OF TERROR: Security and Its Costs

THE BUDGET

New Study on Antiterror Spending Is Fodder for Rival Camps

By RICHARD W. STEVENSON

WASHINGTON, Sept. 5 — The federal government has spent nearly \$37 billion in response to the Sept. 11 attacks and is on track to spend more than 10 times that much to counter terrorism over the next decade, a study by the Congressional Budget Office has found.

The study, the most comprehensive government effort to identify the direct costs of the stepped-up effort to deal with terrorism, did not seek to put a price tag on any war with Iraq. Its findings were in line with earlier and less thorough cost estimates.

But Democrats seized on the figures as evidence that new spending on security means that the government faces deficits and painful tradeoffs because President Bush's tax cuts have consumed so much of the projected budget surplus.

Bush administration officials said the figures buttressed their case that Congress, and Democrats in particular, had to do more to keep spending on nondefense programs in check to avert uncontrolled growth in the deficit.

The additional spending, estimated under one set of assumptions at \$443 billion over the next decade, or an average of more than \$40 billion a year, amounts to about 2 percent of the overall federal budget of \$2 trillion a year. It comes to more than 5 percent of the discretionary budget, that part that excludes predetermined costs like interest payments on the national debt and programs like Social Security.

Democrats said the figures undermined Mr. Bush's contention that the bad economy and the costs of the war, not his tax cuts, were the primary reasons for the drop in the projected budget surplus.

The surplus, estimated last year at \$5.6 trillion for the 10 years from 2002 through 2011, is now forecast to be \$336 billion for the same period and \$1 trillion for the decade starting next year.

Using the budget office's spending estimates, about 10 percent of the decline in the surplus through 2011 would be directly attributable to costs of fighting terrorism. The tax cut, at \$1.3 trillion over 10 years, would account for about a quarter of the drop in the surplus. Economic and technical changes and increased

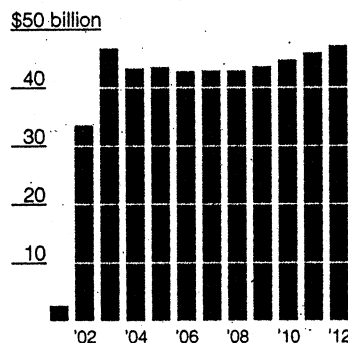
UPDATE

Costs of Response to Sept. 11

A new Congressional study of federal spending related to the Sept. 11 attacks finds that the government has spent \$37 billion so far, and may spend \$443 billion over the next 10 years.

Increased government spending related to Sept. 11 attacks

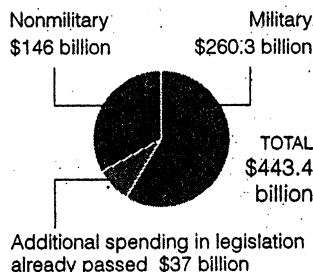
Estimates for the fiscal years shown



Source: Congressional Budget Office

Breakdown of increased spending over 10 years

Fiscal years 2003 to 2012



Figures do not add to total because of rounding.

The New York Times

Tabulating costs and their impact on the federal budget surplus.

interest payments made up the rest.

"The cost of 9/11 is a small fraction of the total deterioration of the surplus," said Representative John M. Spratt Jr., Democrat of South Carolina, who requested the study from the budget office. "It is not, however, a small number. It will require tradeoffs, particularly in a budget where the administration left no cushion for the unexpected."

Administration officials said that several factors had contributed to the decline of the surplus and that Democrats seemed intent on raising both spending and taxes, a combination they said would hurt the economy.

"Sept. 11 and the recession and the war on terrorism were of course a

big portion of what happened to the surplus," Amy Call, a spokeswoman for the White House's Office of Management and Budget, said. "What we are sure about is that if we don't control spending, we will remain in deficit."

The budget office's figures are based on actual outlays by the government since Sept. 11 and an assumption that Mr. Bush's requests for additional money for next year will be granted by Congress and grow at the rate of inflation for the rest of the decade. Congress is still working on the spending bills for next year, but appears likely to give Mr. Bush all the money he is seeking for the Pentagon and domestic security.

The budget office said it looked only at spending above what Congress and the administration had already been considering in those areas before Sept. 11.

It estimated, for example, that \$13.5 billion of Mr. Bush's request for \$27 billion in nonmilitary spending for next year to counter terrorism represented money beyond what the administration would otherwise have been seeking. It said new Pentagon

spending in response to terrorism amounted to \$24 billion.

The growth in spending on fighting terrorism has contributed to one of the largest surges in the size of the federal government in decades.

Brian M. Riedl, a fellow at the Heritage Foundation, the conservative research group, said the four fiscal years through 2003 were on track to be one of the periods of the highest spending in American history and that there was so far little political pressure to curb spending on either national security or social programs.

"Republicans and Democrats basically make a deal with each other — 'I'll vote for your increase if you'll vote for my increase,'" Mr. Riedl said. "As long as voters don't seem intent on punishing politicians for budget deficits, both parties feel they are in the clear."

"So far, voters haven't made waves over the budget deficit because they feel it is a result of recession and war."

Mr. Riedl said the situation would change if Democrats sought to roll back Mr. Bush's tax cut, because voters would then feel penalized for the deficits.

Democrats continue to press the case that Mr. Bush is responsible for the deterioration of the government's fiscal condition because of his tax cut and that voters will pay the price not just in deficits but also in foregone opportunities to deal with problems like the long-term solvency of Social Security and the growing burden of prescription drug costs for the elderly.

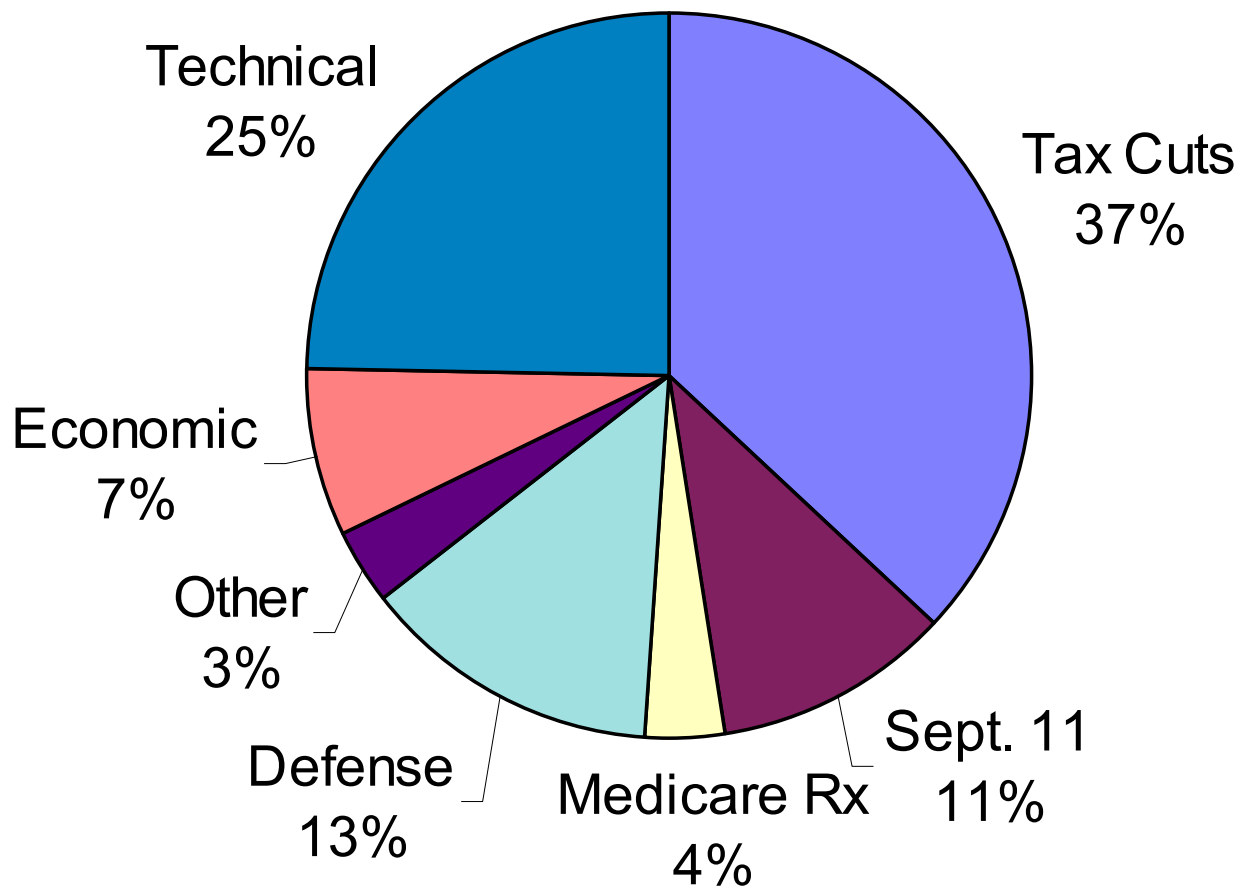
Democrats on the Senate Budget Committee released an analysis today to support their assertion that the tax cut had been the single biggest contributor to the diminution of the surplus.

The analysis found levels of spending on fighting terrorism similar to those in the budget office's report, and concluded that the costs of responding to Sept. 11 accounted for 11 percent of the decline in the surplus.

"By comparison," the analysis said, "tax cuts enacted since January 2001 account for \$1.8 trillion (including associated interest costs) of the foregone surplus over the 10-year time period, or roughly three times the amount attributed to the attacks of Sept. 11."

Chart One

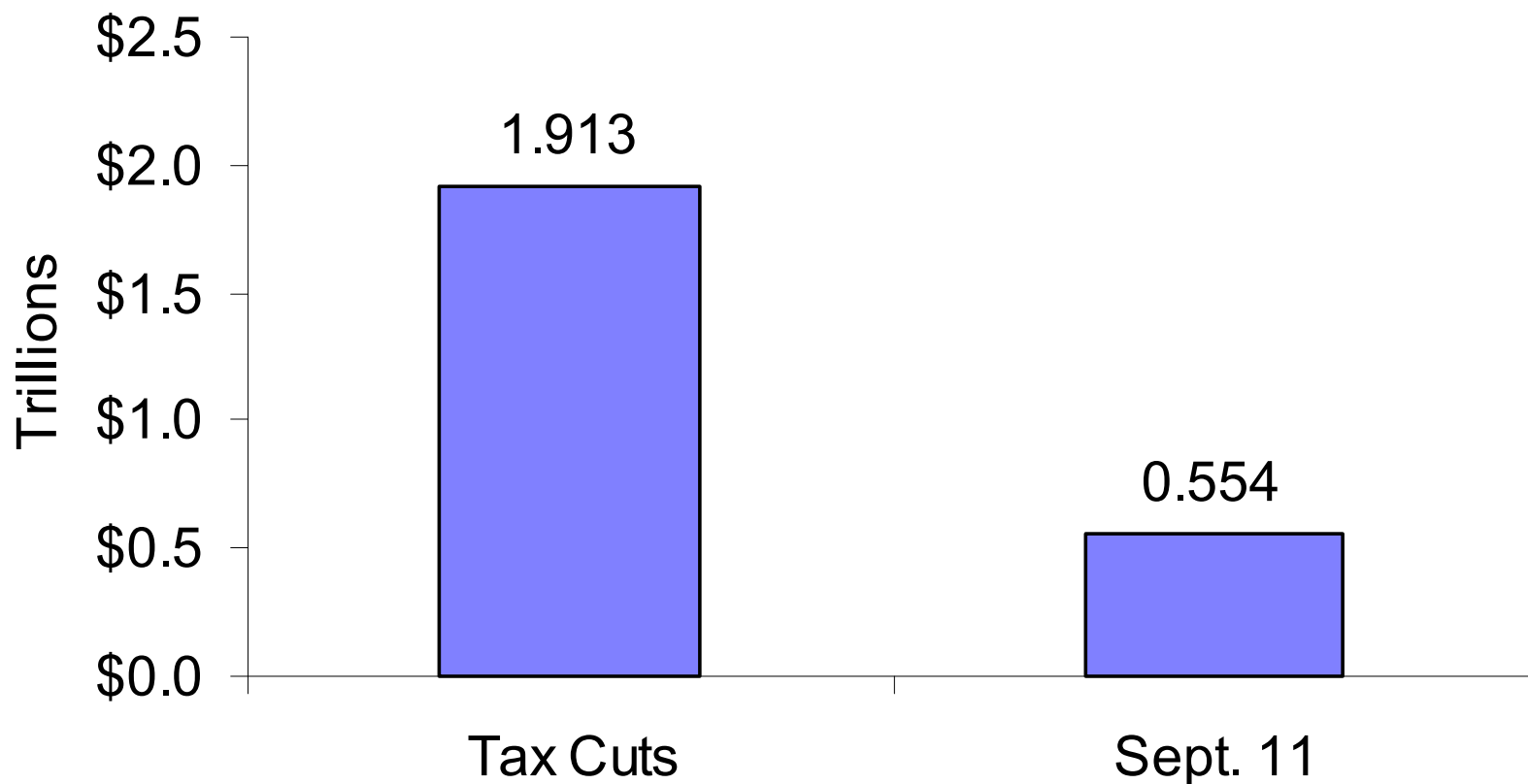
Tax Cuts – Not September 11 Costs – Biggest Cause of Budget Deterioration



The pie chart represents the \$5.2 trillion deterioration of the surplus as estimated by OMB in its *Mid-Session Review* released in July, and thus represents the President's budget requests over the 2002 - 2011 period. Since OMB has so far declined to identify the budgetary impact of September 11, CBO's estimate is used to determine the portion of the President's proposed spending increases that is attributable to September 11. The remainder of the chart is based on the President's *Mid-Session Review* estimates.

Chart Two

Republican Tax Cuts Dwarf September 11 Spending



The size of the tax cuts is based on OMB estimates per the *Mid-Session Review* released in July. Since OMB has declined to identify the budgetary impact of September 11, CBO's estimate is used for this number. Both bars include interest costs as calculated by the House Budget Committee Democratic staff using OMB economic assumptions.